

**ELM VALLEY SCHOOL  
DISTRICT NO. 6-2**

***FINANCIAL REPORT  
JUNE 30, 2003***

# ELM VALLEY SCHOOL DISTRICT NO. 6-2

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**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**SCHOOL DISTRICT OFFICIALS**  
**JUNE 30, 2003**

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School Board Chairman:	Richard Schlosser
School Board Vice-Chairman:	Krysti Mikkonen
School Board Members:	Judith Bretsch
	Herb Shaunaman
	Lance Podoll
CEO:	Randy Barondeau
Business Manager:	Lela Tveit



Consultants • Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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To the School Board  
**Elm Valley School District No. 6-2**  
Brown County, South Dakota

We have audited the accompanying general-purpose financial statements of **Elm Valley School District No. 6-2**, Brown County, South Dakota as of June 30, 2003 and for the year then ended, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as noted in paragraphs three and four, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

Evidence in the form of proper records of general fixed assets was not available to support the costs reported and it was not considered practical to apply adequate alternative procedures regarding the reported amounts. General fixed assets also exclude the assets used by North Central Area Interconnect Cooperative in the amount of \$475,343.

The general purpose financial statements referred to above do not include the Special Revenue Fund accounts of North Central Area Interconnect Cooperative and long-term debt payable to Northern Electric Cooperative, which should be included in order to conform with accounting principles generally accepted in the United States of America. The omitted fund type, based on unaudited information, has assets, liabilities, revenues, and expenditures of \$127,822, \$10,351, \$139,162, and \$173,510, respectively. The balance of the omitted debt is \$12,500.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to test reported amounts for general fixed assets, as discussed in paragraph three and the omission described in paragraph four, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of **Elm Valley School District No. 6-2** as of June 30, 2003, the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2004 on our consideration of Elm Valley School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the primary government financial statements taken as a whole. The combining financial statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements of Elm Valley School District No. 6-2. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

Eide Bailey CP

Aberdeen, South Dakota  
June 29, 2004

**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 2003**

	Governmental Fund Types		Proprietary Fund Types		Fiduciary Fund Types	Account Groups	
	General Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds	Trust and Agency Funds	General Fixed Assets	General Long-term Debt
<b>ASSETS AND OTHER DEBITS</b>							
<b>CURRENT ASSETS</b>							
Cash and deposits	\$ 125,693	\$	\$ 9,951	\$	\$ 15,857	\$	\$
Interest bearing accounts					9,938		
Savings certificates					22,401		
Taxes receivable - current	216,596	209,386					
Taxes receivable - delinquent	10,086	4,125					
Notes receivable					22,868		
Due from federal government	79,341						
Interest receivable on investments and deposits					4,093		
Inventory of supplies			276				
Inventory of stores purchased for resale			383				
Inventory of donated food			704				
Investments	262,947	311,832		22,754			
<b>FIXED ASSETS</b>							
Land						3,500	
Buildings						2,176,318	
Improvements other than buildings						56,946	
Equipment - local funds			25,614			667,461	
Equipment - federal assistance			10,158			117,018	
Accumulated depreciation - local funds (credit)			(24,577)				
Accumulated depreciation - federal assistance (credit)			(10,158)				
<b>OTHER DEBITS</b>							
Amount to be provided for payment of general long-term debt							670,774
<b>TOTAL ASSETS</b>	<u>\$ 694,663</u>	<u>\$ 525,343</u>	<u>\$ 12,351</u>	<u>\$ 22,754</u>	<u>\$ 75,157</u>	<u>\$ 3,021,243</u>	<u>\$ 670,774</u>

# **LIABILITIES AND EQUITY**

## **LIABILITIES**

Accounts payable	\$ 25,465	\$ 6,803	\$	\$	\$	\$
Contracts payable	96,880					
Amounts held for others					26,114	
Payroll deductions and withholdings and employer matching payable	24,902	4,299				
Deferred revenue	226,682	213,511				

## **LONG-TERM LIABILITIES**

C.O. Certificates payable						670,774
Total liabilities	373,929	224,613	-	26,114	-	670,774

## **EQUITY**

Contributed capital			515			
Fund balances						
Reserve for scholarships and loans				49,043		
Undesignated	320,734	300,730				
Investment in general fixed assets					3,021,243	
Retained earnings						
Unreserved retained earnings			11,836			
Reserve for unemployment				22,754		
Total equity	320,734	300,730	12,351	22,754	49,043	3,021,243

TOTAL LIABILITIES AND EQUITY	\$ 694,663	\$ 525,343	\$ 12,351	\$ 22,754	\$ 75,157	\$ 3,021,243	\$ 670,774
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**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**FISCAL YEAR ENDED JUNE 30, 2003**

	<b>Governmental Fund Types</b>	
	<b>General Fund</b>	<b>Special Revenue Funds</b>
<b>REVENUES</b>		
Revenue from local sources		
Taxes	\$ 548,042	\$ 372,680
Tuition and Fees	2,558	-
Earnings on investments and deposits	6,103	608
Co-curricular activities	1,597	-
Other revenue from local sources	84,640	149,843
Total revenue from local sources	642,940	523,131
Revenue from intermediate sources		
County sources	13,848	-
Total revenue from intermediate sources	13,848	-
Revenue from state sources		
Grants-in-aid	534,259	50,966
Total revenue from state sources	534,259	50,966
Revenue from federal sources		
Grants-in-aid	247,478	35,719
Other Federal Revenue	9,438	80,060
Total revenue from federal sources	256,916	115,779
Total revenue	1,447,963	689,876
<b>EXPENDITURES</b>		
Instruction		
Regular programs	687,658	41,289
Special programs	179,415	51,754
Total instruction	867,073	93,043

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL  
FUND TYPES - page 2**

	<b>Governmental Fund Types</b>	
	<b>General Fund</b>	<b>Special Revenue Funds</b>
Support services		
Psychological	-	1,000
Speech pathology	-	6,000
Pupils	3,370	-
Instructional staff	122,785	14,087
General administration	64,202	2,377
School administration	81,132	2,854
Business	321,548	1,440,960
Special education	-	79,617
Total support services	593,037	1,546,895
Community services		
Custody and care of children services	22,120	-
Debt service	-	44,781
Co-curricular activities		
Male activities	26,464	-
Female activities	20,882	-
Combined activities	12,447	-
Total co-curricular activities	59,793	-
Total expenditures	1,542,023	1,684,719
EXCESS OF REVENUES UNDER EXPENDITURES	(94,060)	(994,843)
Other Financing Sources		
Proceeds of General Long-Term Liabilities	-	700,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(94,060)	(294,843)
FUND BALANCE, JULY 1, 2002	414,794	595,573
FUND BALANCE, JUNE 30, 2003	\$ 320,734	\$ 300,730

**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL -**  
**GENERAL AND SPECIAL REVENUE FUND TYPES**  
**FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Revenue from local sources						
Taxes						
Ad valorem taxes	\$ 640,495	\$ 511,284	\$ (129,211)	\$ 945,124	\$ 367,983	\$ (577,141)
Prior years' ad valorem taxes		5,175	5,175		3,204	3,204
Tax deed revenue		139	139		36	-
Gross receipts taxes		29,185	29,185			-
Penalties and interest		2,259	2,259		1,457	1,457
Total taxes	640,495	548,042	(92,453)	945,124	372,680	(572,444)
Tuition and Fees	-	2,558	2,558	-	-	-
Earnings on investments and deposits	15,000	6,103	(8,897)	-	608	608
Co-curricular activities						
Admissions	7,400	420	(6,980)			-
Other pupil activity income	-	1,177	1,177			-
Total Co-curricular activities	7,400	1,597	(5,803)	-	-	-
Other revenue from local sources						
Contributions/donations	35,575	31,486	(4,089)			-
Daycare services	-	33,012	33,012			-
Other	-	20,142	20,142	-	149,843	149,843
Total other revenue from local sources	35,575	84,640	49,065	-	149,843	149,843
Total revenue from local sources	698,470	642,940	(55,530)	945,124	523,131	(421,993)

Revenue from intermediate sources						
County sources						
County apportionment	<u>6,000</u>	<u>13,848</u>	<u>7,848</u>	<u></u>	<u></u>	<u>-</u>
Total revenue from intermediate sources	<u>6,000</u>	<u>13,848</u>	<u>7,848</u>	<u></u>	<u></u>	<u>-</u>
Revenue from state sources						
Grants-in-aid						
Unrestricted grants-in-aid	530,414	529,184	(1,230)			
Restricted Grants-in-Aid			-	16,574	50,966	34,392
Other State Revenue	<u>-</u>	<u>5,075</u>	<u>5,075</u>	<u></u>	<u></u>	<u>-</u>
Total revenue from state sources	<u>530,414</u>	<u>534,259</u>	<u>3,845</u>	<u>16,574</u>	<u>50,966</u>	<u>34,392</u>
Revenue from federal sources						
Grants-in-aid						
Restricted grants-in-aid through state	116,218	247,478	131,260	44,450	35,719	(8,731)
Other federal revenue	<u>15,836</u>	<u>9,438</u>	<u>(6,398)</u>	<u>-</u>	<u>80,060</u>	<u>80,060</u>
Total revenue from federal sources	<u>132,054</u>	<u>256,916</u>	<u>124,862</u>	<u>44,450</u>	<u>115,779</u>	<u>71,329</u>
Total revenues	<u>1,366,938</u>	<u>1,447,963</u>	<u>81,025</u>	<u>1,006,148</u>	<u>689,876</u>	<u>(316,272)</u>
EXPENDITURES						
Instruction						
Regular programs						
Elementary	309,526	320,822	(11,296)	26,000	24,914	1,086
Middle/junior high	99,064	98,014	1,050	13,000	6,363	6,637
High school	247,892	253,927	(6,035)	21,000	10,012	10,988
Class size reduction	<u>14,622</u>	<u>14,895</u>	<u>(273)</u>	<u></u>	<u></u>	<u>-</u>
Special programs						
Programs for special education			-	158,398	45,553	112,845
Educationally deprived	37,784	37,957	(173)			-
Basic skills	2,076	2,076	-			-
Other special programs	<u>38,224</u>	<u>139,382</u>	<u>(101,158)</u>	<u>10,450</u>	<u>6,201</u>	<u>4,249</u>
Total instruction	<u>749,188</u>	<u>867,073</u>	<u>(117,885)</u>	<u>228,848</u>	<u>93,043</u>	<u>135,805</u>

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
GENERAL AND SPECIAL REVENUE FUND TYPES - page 2**

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Support services						
Pupils						
Attendance and social work	-	2,670	(2,670)			-
Guidance	700	700	-			-
Psychological			-	-	1,000	(1,000)
Speech pathology and audiology			-	-	6,000	(6,000)
Instructional staff						
Improvement of instruction	38,170	34,648	3,522			-
Educational media	38,586	88,137	(49,551)	15,000	14,087	913
General administration						
Board of education	21,196	21,196	-			-
Executive administration	43,006	43,006	-	3,000	2,377	623
School administration						
Office of the principal	80,047	81,132	(1,085)	3,000	2,854	146
Business						
Fiscal services	42,718	42,718	-	3,000	-	3,000
Facilities acquisition and construction		-	-	1,350,000	1,334,482	15,518
Operation and maintenance of plant	149,716	135,715	14,001	57,655	106,478	(48,823)
Pupil transportation	144,365	138,115	6,250			-
Food services	15,000	5,000	10,000	6,000	-	6,000
Special education						
Administrative costs			-	-	79,617	(79,617)
Total support services	573,504	593,037	(19,533)	1,437,655	1,546,895	(109,240)
Community services						
Custody and care of children	-	22,120	(22,120)			-
Debt service	1,800	-	1,800	5,000	44,781	(39,781)
Early retirement pension	-	-	-	29,645	-	29,645

Co-curricular activities						
Male activities	27,814	26,464	1,350	5,000	-	5,000
Female activities	23,855	20,882	2,973	-	-	-
Transportation	569	-	569	-	-	-
Combined activities	<u>15,850</u>	<u>12,447</u>	<u>3,403</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total co-curricular activities	<u>68,088</u>	<u>59,793</u>	<u>8,295</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Contingencies						
Amount budgeted	30,000	-	30,000			
Amount transferred	<u>(24,509)</u>	<u>-</u>	<u>(24,509)</u>			<u>-</u>
	<u>5,491</u>	<u>-</u>	<u>5,491</u>			
Total expenditures	<u>1,398,071</u>	<u>1,542,023</u>	<u>(143,952)</u>	<u>1,706,148</u>	<u>1,684,719</u>	<u>21,429</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>(31,133)</u>	<u>(94,060)</u>	<u>(62,927)</u>	<u>(700,000)</u>	<u>(994,843)</u>	<u>(294,843)</u>
Other Financing Sources						
Proceeds of General Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,000</u>	<u>700,000</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>(31,133)</u>	<u>(94,060)</u>	<u>(62,927)</u>	<u>-</u>	<u>(294,843)</u>	<u>(294,843)</u>
FUND BALANCE, JULY 1, 2002	<u>414,794</u>	<u>414,794</u>	<u>-</u>	<u>595,573</u>	<u>595,573</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2003	<u>\$ 383,661</u>	<u>\$ 320,734</u>	<u>\$ (62,927)</u>	<u>\$ 595,573</u>	<u>\$ 300,730</u>	<u>\$ (294,843)</u>

See Notes to Financial Statements.

**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN RETAINED EARNINGS/FUND BALANCE**  
**PROPRIETARY FUND TYPES AND SIMILAR TRUST FUND**  
**FISCAL YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise Funds	Internal Service Fund	Non- Expendable Trust
OPERATING REVENUE			
Sales			
To pupils	\$ 33,447	\$ -	\$ -
To adults	4,783	-	-
Other	1,255	-	-
Interest earned	-	-	1,133
Total operating revenue	<u>39,485</u>	<u>-</u>	<u>1,133</u>
OPERATING EXPENSES			
Salaries	34,686	-	-
Employee benefits	4,534	-	-
Purchased services	2,516	-	-
Supplies	482	-	-
Cost of sales - purchased food	15,570	-	-
Cost of sales - donated food	5,671	-	-
Miscellaneous	1,191	-	-
Depreciation - local funds	225	-	-
Other	3,225	-	150
Total operating expenses	<u>68,100</u>	<u>-</u>	<u>150</u>
OPERATING INCOME (LOSS)	<u>(28,615)</u>	<u>-</u>	<u>983</u>
NONOPERATING REVENUE			
Local sources			
Interest revenue	12	-	-
State sources			
Other cash payments	883	-	-
Federal sources			
Cash reimbursements	29,831	-	-
Donated food	5,189	-	-
Total nonoperating revenue	<u>35,915</u>	<u>-</u>	<u>-</u>

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**COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS/FUND BALANCE  
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUND - page 2**

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise Funds	Internal Service Fund	Non- Expendable Trust
NET INCOME (LOSS)	7,300	-	983
Depreciation on contributed assets	123	-	-
INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCE	7,423	-	983
RETAINED EARNINGS/ FUND BALANCE, JULY 1, 2002	4,413	22,754	48,060
RETAINED EARNINGS/ FUND BALANCE, JUNE 30, 2003	<u>\$ 11,836</u>	<u>\$ 22,754</u>	<u>\$ 49,043</u>

**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPE AND SIMILAR TRUST FUND**  
**FISCAL YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise Funds	Internal Service Fund	Non- Expendable Trust
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (28,615)	\$ -	\$ 983
Adjustments to reconcile operating income (loss) to net cash from (used by) operating activities:			
Depreciation expense	225		
Value of donated commodities used	5,671		
Change in assets and liabilities:			
Increase in receivables			(523)
Decrease in inventories	173		
Decrease in accounts payable	(52)		
Net cash from (used by) operating activities	(22,598)	-	460
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Cash reimbursements - state sources	883		
Cash reimbursements - federal sources	29,831		
Net cash from noncapital financing activities	30,714	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Notes disbursed			(3,590)
Note repayments received			1,470
Interest received	12		
Net cash from investing activities	12	-	(2,120)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	8,128	-	(1,660)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	1,823	-	23,742
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 9,951</u>	<u>\$ -</u>	<u>\$ 22,082</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Values of commodities received	<u>\$ 5,189</u>		

See Notes to Financial Statements.



**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**NOTES TO FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2003**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*A. Reporting Entity*

The funds and account groups included in this report are controlled by or dependent upon the Elm Valley School District No. 6-2 Board of Education.

The accounting policies of the Elm Valley School District No. 6-2 (the School District) conform to accounting principles generally accepted in the United States of America as applicable to governments.

The School District participates in cooperative service units with other school districts. See detailed note entitled "Joint Ventures and Cost Sharing Arrangements" for specific disclosures.

*B. Fund Accounting*

The accounts are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three broad fund categories and five generic fund types as follows:

Governmental Funds:

General Fund - The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Capital Outlay, Special Education, Pension Funds, and North Central Area Interconnect are the special revenue funds maintained by the School District.

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Food Service Fund is the only enterprise fund maintained by the School District.

## NOTES TO FINANCIAL STATEMENTS

---

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments, on a cost-reimbursement basis. The Unemployment Fund is the only internal service fund maintained by the School District.

The proprietary funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

### Fiduciary Funds:

Trust and Agency Funds - Trust and agency funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include nonexpendable trust and agency funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

### *C. Fixed Assets and Long-Term Liabilities*

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including curbs and gutters, sidewalks, drainage systems, and lighting systems are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of fixed assets are capitalized along with other fixed asset costs.

The total June 30, 2003 balance of general fixed assets includes approximately 40 percent for which the costs were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs and basing the estimations thereon. Proprietary fund fixed assets are recorded at actual historical cost.

Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method.

Long-term liabilities expected to be financed from governmental funds are accounted for in the general long-term debt account group, not in the governmental funds.

The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

## NOTES TO FINANCIAL STATEMENTS

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### *D. Basis of Accounting*

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. The revenues that were accrued at June 30, 2003 are related to the Title I, IV, VI, School to Work II and IV and Class Size Reduction. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

All proprietary funds and nonexpendable trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

### *E. Budgets and Budgetary Accounting:*

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year. The proposed budget is published for public review no later than July 15 each year. Public hearings are held to solicit taxpayer input prior to the approval of the budget. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
2. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority. There were no supplemental budgets adopted by the governing board during the year ended June 30, 2003.

Unexpended appropriations lapse at year-end unless encumbered by a resolution of the school board.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to serve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds.

5. No encumbrances were outstanding at June 30, 2003.

## NOTES TO FINANCIAL STATEMENTS

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6. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue funds.
7. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

### *F. Deposits and Investments*

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or better or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The school's policy is to credit all income from investments to the general fund except for interest on deposits of the capital outlay fund, non-expendable trusts, and food service which are recorded in the respective fund.

The actual bank balances at June 30, 2003, were as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 100,000
Uninsured, collateral jointly held by state's/ schools agent in the name of the state and the pledging financial institution	<u>106,648</u>
Total deposits	<u><u>\$ 206,648</u></u>

The School District's carrying amount of deposits on the June 30, 2003 balance sheet was \$183,840.

Investments - In general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load mutual fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

## NOTES TO FINANCIAL STATEMENTS

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Investments are stated at fair value.

The School District's investments (except for mutual funds) are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the entity's name.

The investments at June 30, 2003 were as follows:

	Fair Value
External Investment Pools (SDFIT)	<u>\$ 597,532</u>

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties.

The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

### *G. Inventory*

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

### *H. Interfund Receivables*

Noncurrent portions of long-term interfund loans receivable (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of long-term interfund loans receivable, reported in "Due from" asset accounts, are considered "available spendable resources."

### *I. Accumulated Unpaid Vacation and Sick Pay*

Annual leave is earned by certain employees at varying rates. Upon termination, employees are entitled to receive compensation for their accrued annual leave balance at their current rate of pay.

Sick leave is earned by teachers and certain employees at varying rates. Sick leave earned by teachers in excess of 50 days will be paid at a rate of \$10/day to returning teachers. Upon termination, teachers and employees are not entitled to receive compensation for their accrued sick leave balance.

## NOTES TO FINANCIAL STATEMENTS

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### *J. Deferred Revenue*

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

### *K. Cash Flows*

For the purpose of the Statement of Cash Flows, the School District considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

### *L. Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### *M. Effect of GASB Statement 34 Implementation*

In June 1999, the Government Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Government* (Statement). Certain significant changes in the Statement include the following:

- For the first time the financial statements will include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the School District’s overall financial position and results of operations
  - Financial statements prepared using full accrual accounting for all of the School District’s activities, including reporting capital fixed assets and depreciation.
- A change in the fund financial statements to focus on the *major* funds.

The general provisions of GASB Statement No. 34 must be implemented by the School District no later than the year ending June 30, 2004. The School District is in the process of evaluating the impact that will result from adopting this statement and is unable to disclose the impact that adoption will have on its financial position and the results of its operations.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 - PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the School District's taxes and remits them to the School District. School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable which are not available as a resource that can be used to finance the current year's appropriations and, therefore are not susceptible to accrual, have been deferred and are not reported as revenue.

### NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments include \$79,341 due from the Federal Government related to the Title I, II, IV, and VI program, School to Work program, Distance Learning & Teaching grant, and the Comprehensive School Reform Development grant.

### NOTE 4 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Buildings	596,935	1,579,383	-	2,176,318
Improvements	40,208	16,738	-	56,946
Equipment	697,531	86,948	-	784,479
Construction in progress	174,800	-	174,800	-
Total	<u>\$ 1,512,974</u>	<u>\$ 1,683,069</u>	<u>\$ 174,800</u>	<u>\$ 3,021,243</u>

### NOTE 5 - LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Capital Outlay Certificates
Debt payable July 1, 2002	\$ -
Additions	700,000
Reductions	(29,226)
Change in compensated absences	-
Debt payable June 30, 2003	<u>\$ 670,774</u>

## NOTES TO FINANCIAL STATEMENTS

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Compensated absences represent vested annual leave paid from the General Fund. Capital outlay certificates with a total beginning principal balance of \$700,000 are Series 2002.

Debt payable at June 30, 2003 is as follows:

Capital Outlay Certificates:

Capital outlay certificates, series 2002, subject to semi-annual sinking fund requirements in February and August beginning February 1, 2003 with final installment due August 1, 2012.

The interest rate is 5%; paid from the capital outlay fund.

\$ 670,774

The annual requirements to amortize all debt outstanding as of June 30, 2003, excluding compensated absences but including interest payments of \$180,071 and bond sinking fund installments are as follows:

<u>Year Ending June 30,</u>	<u>Capital Outlay Certificates</u>
2004	\$ 89,563
2005	89,563
2006	89,563
2007	89,563
2008	89,563
Thereafter	403,030
	<u>\$ 850,845</u>

### NOTE 6 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

This requirement, except for the amount of working capital, which is \$11,314, is effectively met by the statements in this report because the School District maintains only one enterprise fund, the Food Service Fund.



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

The following represents the overdrafts of expenditures compared to appropriations for funds other than the General Fund:

	<u>Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Special Education Fund:			
Support Services			
Pupil psychological	\$ -	\$ 1,000	\$ (1,000)
Pupil speech pathology and audiology	-	6,000	(6,000)
Special Education			
Administration costs	-	79,617	(79,617)
Capital Outlay Fund:			
Business			
Operation and maintenance of plant	57,655	106,478	(48,823)
Debt Service	5,000	44,781	(39,781)

### NOTE 8 - RETIREMENT PLAN

All employees, except for employees working less than 20 hours per week and those with 6 months or less of service, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Member, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$48,428, \$36,670, and \$35,612, respectively, equal to the required contributions each year.

### NOTE 9 – LITIGATION

At June 30, 2003, the School District was not involved in any litigation that would be material to the financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

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### **NOTE 10 - JOINT VENTURES AND COST SHARING ARRANGEMENTS**

The School District participates in one cooperative service unit (co-op) formed for the purpose of providing educational services to the member school districts.

#### Hub Area Technical School

The members of the Hub Area Technical School and their relative percentage of participation are as follows:

Aberdeen School District No. 6-1	84.57%
Elm Valley School District No. 6-2	3.38%
Northwestern School District No. 56-3	5.78%
Warner School District No. 6-5	6.27%
	<hr/>
	100.00%
	<hr/>

The Hub Area Technical School's governing board is composed of one to three representatives from each member district, who are school board members. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget. Separate financial statements are available from the Hub Area Technical School.

The School District retains no equity interest in the net assets of Hub Area Technical School, but does have a responsibility to fund deficits in proportion to the relative participation described above.

At June 30, 2003, the Hub Area Technical School had total fund equity of \$1,273,551 and long-term debt of \$20,645.

The School District also participates in three cost sharing arrangements with other area school districts. The budgets are established annually for these programs with input from each participating school. The participating schools share these costs either based on the number of schools or students participating.

### **NOTE 11 – EARLY RETIREMENT**

The School District has adopted a policy whereby teachers between the ages of 55 and 64 that have been employed with the School District for a minimum of 15 years are eligible for early retirement. The one-time benefit, depending on retirement age, is 30-76% of retiree's contract salary. Payment may be a lump sum or two equal annual installments at the election of the retiree. There were no payments made in the current year.

### **NOTE 12 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2003, the School District managed its risks as follows:

## NOTES TO FINANCIAL STATEMENTS

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### Worker's Compensation Insurance:

The School District participates, with several other educational units and related organizations in South Dakota, in the Association of School Boards Worker's Compensation Fund Pool which provided worker's compensation insurance coverage for participating members of the pool. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the year ended June 30, 2003, the pool's retained risk was \$250,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$750,000 for total coverage of \$1,000,000 per occurrence. There was no additional assessment charged to the pool members for the year ended June 30, 2003.

### Employee Health Insurance:

The School District purchases health insurance for its employees from a commercial insurance carrier.

### Liability Insurance:

The School District purchases liability insurance for risks related to torts; theft of or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

### Unemployment Benefits:

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The School District has equity in the Unemployment Fund in the amount of \$22,754 for the payment of future unemployment benefits.

During the year ended June 30, 2003, no claims for unemployment benefits were paid. At June 30, 2003, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

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**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUNDS**  
**JUNE 30, 2003**

	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Taxes receivable - current	\$ 129,553	\$ 65,745	\$ 14,088	\$ 209,386
Taxes receivable - delinquent	2,565	1,284	276	4,125
Investments	126,203	82,709	102,920	311,832
Total assets	<u>\$ 258,321</u>	<u>\$ 149,738</u>	<u>\$ 117,284</u>	<u>\$ 525,343</u>
<b>LIABILITIES AND FUND EQUITY</b>				
Current liabilities and deferred credits				
Contracts payable	\$ -	\$ 6,803	\$ -	\$ 6,803
Payroll deductions and withholdings and employer matching payable	-	4,299	-	4,299
Deferred revenue	132,118	67,029	14,364	213,511
Total liabilities	<u>132,118</u>	<u>78,131</u>	<u>14,364</u>	<u>224,613</u>
Fund equity				
Fund balances				
Unreserved				
Undesignated	126,203	71,607	102,920	300,730
Total equity	<u>126,203</u>	<u>71,607</u>	<u>102,920</u>	<u>300,730</u>
Total liabilities and equity	<u>\$ 258,321</u>	<u>\$ 149,738</u>	<u>\$ 117,284</u>	<u>\$ 525,343</u>

**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2003**

	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Fund</b>	<b>Total</b>
<b>REVENUES</b>				
Revenue from local sources				
Taxes	\$ 230,355	\$ 117,209	\$ 25,116	\$ 372,680
Investment earnings	608	-	-	608
Other revenue from local sources	149,830	13	-	149,843
Total revenue from local sources	380,793	117,222	25,116	523,131
Revenue from state sources				
Grants-in-aid	-	50,966	-	50,966
Total revenue from state sources	-	50,966	-	50,966
Revenue from federal sources				
Grants-in-aid	2,000	33,719	-	35,719
Other federal revenue	80,060	-	-	80,060
Total federal revenue	82,060	33,719	-	115,779
Total revenues	462,853	201,907	25,116	689,876
<b>EXPENDITURES</b>				
Instruction				
Regular	41,289	-	-	41,289
Special	6,201	45,553	-	51,754
Total instruction	47,490	45,553	-	93,043
Support services				
Instructional staff	14,087	-	-	14,087
General administration	2,377	-	-	2,377
School administration	2,854	-	-	2,854
Business	1,440,960	-	-	1,440,960
Psychological	-	1,000	-	1,000
Speech pathology	-	6,000	-	6,000
Special education	-	79,617	-	79,617
Total support services	1,460,278	86,617	-	1,546,895
Debt Services	44,781	-	-	44,781
Total expenditures	1,552,549	132,170	-	1,684,719

(continued on next page)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - SPECIAL  
REVENUE FUNDS - page 2**

	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Total</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(1,089,696)</u>	<u>69,737</u>	<u>25,116</u>	<u>(994,843)</u>
Other Financing Sources				
Proceeds of General Long-Term Liabilities	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>
Total Other Financing Sources	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>(389,696)</u>	<u>69,737</u>	<u>25,116</u>	<u>(294,843)</u>
FUND BALANCE, JULY 1, 2002	<u>515,899</u>	<u>1,870</u>	<u>77,804</u>	<u>595,573</u>
FUND BALANCE, JUNE 30, 2003	<u>\$ 126,203</u>	<u>\$ 71,607</u>	<u>\$ 102,920</u>	<u>\$ 300,730</u>



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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To the School Board  
Elm Valley School District No. 6-2  
Brown County, South Dakota

We have audited the general purpose financial statements of Elm Valley School District No. 6-2 as of and for the year ended June 30, 2003, and have issued our report thereon dated June 29, 2004 which was qualified because the financial statements do not include the General Fund, General Fixed Asset Account Group and the General Long-Term Debt Account Group of North Central Area Interconnect Cooperative and because evidence in the form of proper records of general fixed assets was not available to support the costs reported and it was not considered practical to apply adequate alternative procedures regarding the reported amounts. Except as was discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Elm Valley School District No. 6-2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of audit findings as item 2003-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elm Valley School District No. 6-2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Elm Valley School District No. 6-2's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying auditor's comments as item numbers one through four.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended for the information of the governing board, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailey LLP

Aberdeen, South Dakota  
June 29, 2004



**ELM VALLEY SCHOOL DISTRICT NO. 6-2**  
**AUDITOR'S COMMENTS**  
**JUNE 30, 2003**

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STATUS OF PRIOR AUDIT RECOMMENDATIONS

Finding 2002-01 – There was a lack of segregation of duties in the revenue, expenditures, and payroll functions due to the size of the School District. This comment has not been corrected and is restated as current audit finding 2003-01.

Finding 2002-02 – The School District does not maintain a complete, detailed record of the individual items that make up the General Fixed Asset Account Group. This comment has not been corrected and is restated as current audit finding 2003-02.

Finding 2002-03 – The School District does not include the accounts of North Central Area Interconnect Cooperative. This comment has not been corrected and is restated as current audit finding 2003-03.

Finding 2002-04 – The Board of the School District must approve all checks or vouchers prior to their issuance as required by SDCL 13-16-20 and 13-8-26. The President of the Board must countersign each check or warrant to be drawn as required by SDCL 13-16-20, 13-8-26, and 13-18-2. We noted during the summer months that vouchers issued by the North Central Area Interconnect Cooperative Special Education Fund were not approved by the school board prior to their issuance, but were approved at the September board meeting. We also noted those checks were not countersigned by the President of the Elm Valley School Board. This comment has not been corrected and is restated as current audit finding 2003-04.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding 2003-01 - There was a lack of segregation of duties in the revenue, expenditures, and payroll functions due to the size of the School District. (repeat condition for last ten years)

A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

The lack of segregation of duties increases the possibility that errors in the accounting system would not be detected timely.

We recommend the Elm Valley School District develop internal accounting controls to prevent individuals from handling transactions from inception to completion.

Finding 2003-02 – The School District does not maintain a complete, detailed record of the individual items that make up the General Fixed Asset Account Group. (repeat from 1999 audit)

The lack of complete, detailed records of general fixed assets reduces the control and physical accountability over assets owed by the district.

We recommend management take an inventory of general fixed assets to determine the value (estimated or original cost) and content.

Finding 2003-03 – The School District does not include the accounts of North Central Area Interconnect Cooperative. (repeat from 2000 audit)

This information should be included in order to conform to accounting principles generally accepted in the United States of America and to provide a full reporting of all funds, organizations, institutions, agencies, departments, and offices.

We recommend this information be included as a fund type of the School District.

Finding 2003-04 – The Board of the School District must approve all checks or vouchers prior to their issuance as required by SDCL 13-16-20 and 13-8-26. The President of the Board must countersign each check or warrant to be drawn as required by SDCL 13-16-20, 13-8-26, and 13-18-2. We noted during the summer months that vouchers issued by the North Central Area Interconnect Cooperative Special Education Fund were not approved by the school board prior to their issuance, but were approved at the September board meeting. We also noted those checks were not countersigned by the President of the Elm Valley School Board. (repeat from 2002 audit)

The checks were not issued in accordance with state statutes. Failure to follow these statutes increases the possibility of that an unauthorized expenditure could be made and that it would not be detected.

We recommend that appropriate steps be taken to assure all expenditures are approved by the Elm Valley School Board prior to disbursement and that the School Board President countersign all checks issued.

Finding 2003-05 – The School District overspent their budget authority for a number of expenditure line items and the general fund in total.

South Dakota law requires school districts to follow an annual budgeting process to set expenditure levels for the upcoming year. Should circumstances not contemplated in the original budget occur, the district should follow SDCL 13-11-3.2 to approve a supplemental budget. This process requires a first and second reading before giving final approval and requires a means of finance be determined. This process allows for input from the taxpayers and helps to assure that the district has the means of finance available for planned expenditures.

We recommend that the Board adopt supplemental budgets throughout the year as appropriate and expenditures be monitored more closely and that transfers from the contingency appropriation be utilized as necessary to assure annual expenditures are within approved budget amounts.